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## CURRENT SUPPORT MEMORANDUM

REORGANIZATION OF COMMUNIST CHINA'S ECONOMIC MINISTRIES

OFFICE OF RESEARCH AND REPORTS

CENTRAL INTELLIGENCE AGENCY

This report represents the immediate views of the originating intelligence components of the Office of Research and Reports. Comments are solicited.

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~~CONFIDENTIAL~~REORGANIZATION OF COMMUNIST CHINA'S ECONOMIC MINISTRIES

The Chinese State Council on 11 February 1958 announced a reorganization which abolishes seven ministries and one commission in the governmental economic control structure. 1/ The current changes represent the fourth major reshuffling of administrative organization in Communist China since the regime was established in late 1949. Every other year new ministries and commissions have been added to the organizational structure of the State Council by breaking up existing ministries into more specialized ones. This proliferation of organizations has been particularly noteworthy in the industrial segments of the economy.

Compared with previous reorganizations, the current changes appear to represent a consolidation and retrenchment of administration rather than the proliferation and specialization which characterized the previous reorganizations. After a period of eight years, the Chinese Communist administration is attempting to consolidate its organizational structure and to eliminate over-staffed and overlapping administrations. The first major governmental consolidation in the Soviet Union was not taken until 1953, shortly after the death of Stalin and some thirty-five years after the establishment of the regime.

The present Chinese reorganization has been publicly related to the current rectification campaign which has concentrated on reducing Peiping's inflated bureaucracy and sending "non-productive" personnel back to the countryside to engage in "production." It is also directly related to the limited decentralization of industrial administration announced by the State Council in November 1957. 2/ At that time Peiping planned to transfer to the administration of local governments enterprises under the control of the central Ministries of Food Industry,\* Timber Industry and Light Industry.\*\* At the same time certain construction units and some enterprises engaged in the production of building materials were also transferred from the national to local administration. These changes obviated the need for separate central ministries in these fields.

The abolition of the Commission for National Construction has not been explained. The Commission's responsibilities have never been clearly defined, but it has been assumed that it planned and coordinated construction activities undertaken by the many industrial ministries and the Ministry of Construction and Engineering. Part of the Commission's planning function has now been transferred to the two planning commissions, the National Planning Commission and the National Economic Commission. Some planning responsibility and all of the Commission's coordination activities have passed to the Ministry of Construction and Engineering. Originally established in 1954 to engage in civil (non-industrial) construction, this Ministry has become increasingly involved in industrial construction with every passing year. More than 40 percent of the Ministry's 1956 construction plan was devoted to factory production, and it has been

\* The jurisdiction of this Ministry included processing of flour, sugar, oils and fats, wine, tobacco, and salt.

\*\*Industries under this Ministry included: papermaking, pottery and procelain, leather, consumer goods in the chemical and metal products field.

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reported that the Ministry is responsible for the construction of more than one-half of the 1956 Soviet aid projects. 3/ If this trend continues and the Ministry's responsibility for all capital construction increases--which seems likely since it absorbed two other construction ministries--the problem of coordinating construction activities of the industrial ministries should correspondingly decrease.

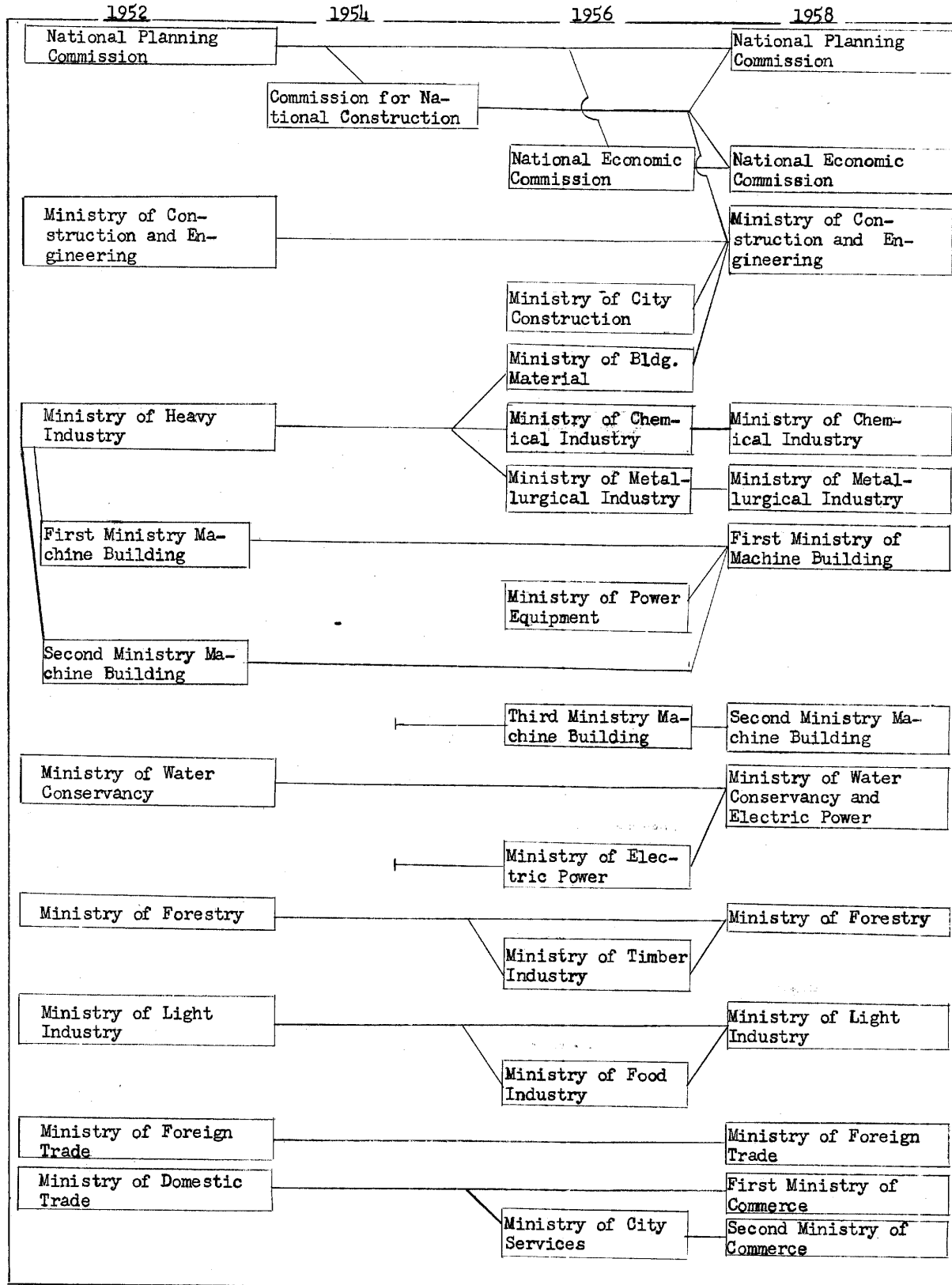
The regime has made no announcement on the nature of the changes made in the machine building industry. The Third Ministry of Machine Industry has been renamed the Second Ministry of Machine Building and the responsibility of the First Ministry of Machine Industry (machinery, automobiles, ships and railroad equipment) has been enlarged to include power equipment and the defense industry. The incorporation of the Ministry of Power Equipment is not unusual, for the First Ministry of Machine Building controlled the production of this equipment prior to 1956. However, the merger of the defense industry (the former Second Ministry of Machine Building) with the First Ministry of Machine Building is significant. A November 1957 announcement said that industrial enterprises engaged in defense production would produce fifty types of products for civilian use in 1957. 4/ Among those products listed were airplanes, busses, trucks, locomotives, bicycles, machinery equipment for chemical plants, air compressors, hydraulic presses, electric furnaces, drills, pumps, and optical glass. The head of the new Ministry is General CHAO Erh-lu, a man with ordinance experience and minister of the Second Ministry of Machine Building since its establishment in 1952. His current appointment as head of the new First Ministry of Machine Building will doubtless insure the proper consideration of defense interests within the enlarged responsibility of the new ministry.

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